C8900-1

HOW TO USE EXECUTIVE POWER • JUNK AFTER MILKEN • IS AMERICA COMPETITIVE

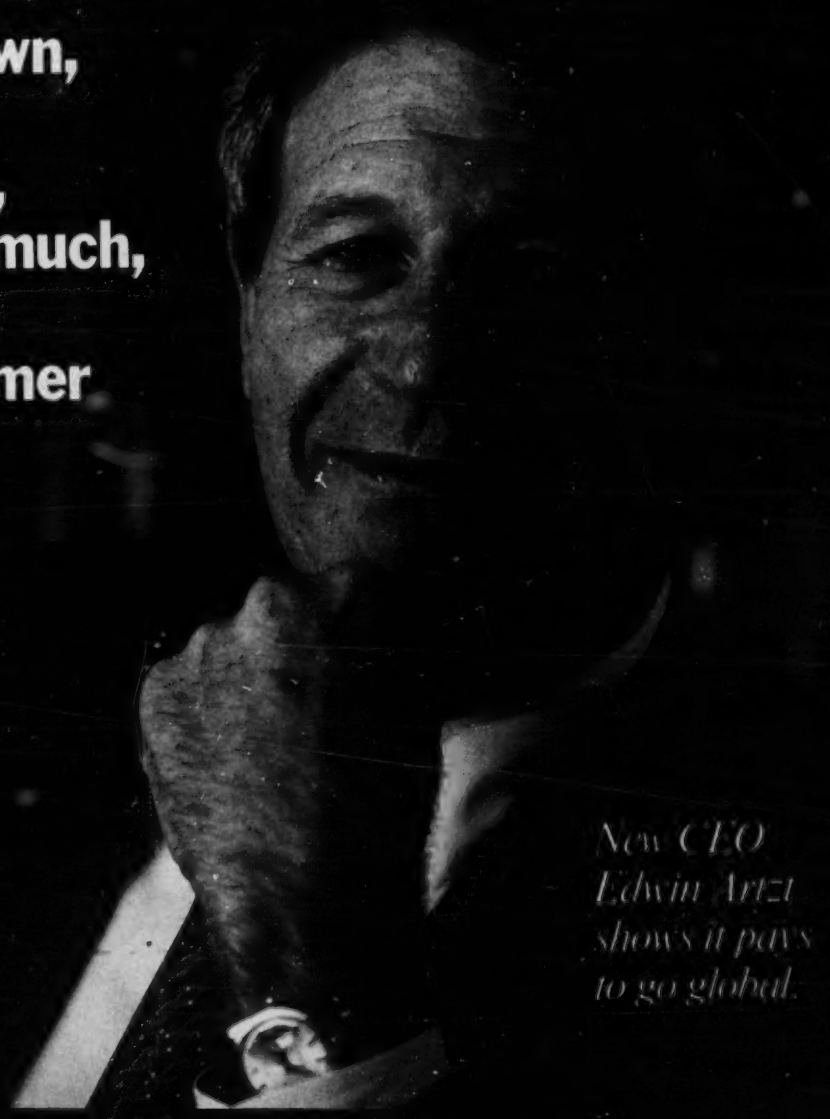
VEMBER 6, 1989 $3.50

FORTUNE

P&G REWRITES THE RULES OF MARKETING

**t's pushing
uthority down,
speeding
lecisions up,
nd getting much,
nuch closer
o the customer**

185G
5-DIGIT 20814
SRI CNGRSSN INFO SVC HDQDMA**
4520 EAST-WEST HWY PL0029
BETHESDA MD 20814-3319



New CEO Edwin Artzt shows it pays to go global.

EDITOR-IN-CHIEF Jason McManus
EDITORIAL DIRECTOR Richard B. Stolley
CORPORATE EDITOR Gilbert Rogin
TIME INC. MAGAZINES
PRESIDENT Reginald K. Brack Jr.
EXECUTIVE VICE PRESIDENTS Donald M. Elliman Jr., S. Christopher Meigher III, Robert L. Miller
SENIOR VICE PRESIDENTS Richard W. Angle Jr., Michael J. Klingensmith

FORTUNE

Founder Henry R. Luce, 1898-1967

MANAGING EDITOR Marshall Loeb
EXECUTIVE EDITOR Allan T. Demaree
ASSISTANT MANAGING EDITORS Walter Kiechel III, Ann M. Morrison
INTERNATIONAL EDITOR Donald D. Holt
ART DIRECTOR Margery Peters
PICTURE EDITOR Michele F. McNally
BOARD OF EDITORS Evelyn Benjamin, Charles G. Burck, Gene Bylinsky, Geoffrey Colvin, Julie Connelly, John J. Curran, Marta F. Dorion, Edmund Faltermayer, Susan Fraker, Keith R. Johnson, Richard I. Kirkland Jr., Louis Kraar, Kenneth Labich, Colin Leinster, Carol Junge Loomis, Myron Magnet, Jeremy Main, Todd May Jr., Peter Petre, Bill Saporito, Stratford P. Sherman, Lee Smith (Washington)
SENIOR EDITOR John F. Lawrence
ASSOCIATE EDITORS Edward C. Baig, Kate Ballen, Rosalind Klein Berlin, Vivian Brownstein, Ann Reilly Dowd (Washington), Joel Dreyfuss, Brian Dumaine, Alan Farnham, Jaclyn Fierman, Brett Duval Fromson, Stuart Gannes, Catherine Comes Haight, Gary Hector (San Jose, CA), Ronald Henkoff (Chicago), David Kirkpatrick, Christopher Knowlton, Andrew Kupfer, Patricia A. Langan, Alicia Hills Moore, John Paul Newport Jr., Robert E. Norton (Washington), Peter Nulty, Brian O'Reilly, Nancy J. Perry, Carla Rapoport (Tokyo), Faye Rice, Louis S. Richman, Lenore Schiff, Brenton R. Schlender (San Francisco), Patricia Sellers, Andrew Evan Serwer, Thomas A. Stewart, Alex Taylor III, Shawn Tully (European Editor), Monci Jo Williams, Wilton Woods, Ford S. Worthy (Hong Kong)
CONTRIBUTING EDITOR Daniel Seligman
REPORTERS Reed Abelson, Mark Alpert, J. B. Blank, Susan Caminiti, Mark M. Colodny, Carol Davenport, Darienne L. Dennis, Alan Deutschman, Constance A. Gustke, Cynthia Hutton, Rahul Jacob, Frederick Hiroshi Katayama, Sandra L. Kirsch, Laurie Kretchmar, Susan E. Kuhn, Joshua Mendes, David J. Morrow, Karen Nickel, Terence P. Paré, Jennifer Reese (Washington), Charles A. Riley II, Ellen Schultz, William E. Sheeline, Julianne Slovak, Sarah Smith, Sally Solo (Tokyo), Richard S. Teitelbaum
ART STAFF Renee Klein, Leo F. McCarthy (associate directors), Linda Eckstein, Frances Fifield, Jean Held, Joan Hoffman, Nai Lee Lum, Barbara R. Smyth (designers), Meher J. Dalal
PHOTOGRAPHY Elizabeth Cheng Krist, Eric Godwin (assistant picture editors), Maureen Duffy Benziger, Christopher E. Green, Shirley Santino
EDITORIAL OPERATIONS Donald G. Biglands (manager), Carol Gwinn (copy chief), Charles Blackwell (deputy), J. Randall Sizemore (technology chief), David Sloan (deputy), Charles J. Attardi, Leslie Brenner, Jonathan Brown, Leon A. Douglas, Edith Firoozi Fried, Anne Glusker, Scott Kelliher, Simone M. Kilian, Daniel Lawrence, Michelle Lockhart, Frances Owles, David V. Rile, Mary Alice Rudovsky, Sara Solberg, Susan R. Visconti, Dennis Williams, David Wray
PRODUCTION Guy Gleysteen (makeup manager), Robin Kaplan (deputy)
EDITORIAL FINANCIAL MANAGER Cathy O'Brien
EXECUTIVE ASSISTANTS Anne Gut, Carolyn Sampson
EDITORIAL SERVICES Christiana Walford (director)

PUBLISHER James B. Hayes
GENERAL MANAGER Gregory J. Zorthian
CONSUMER MARKETING DIRECTOR Kenneth Godshall
BUSINESS MANAGER Merida Welles
PRODUCTION DIRECTOR Barry R. Meinerth

U.S. ADVERTISING SALES DIRECTOR John E. Jay
NATIONAL SALES MANAGER James D. Graham
MARKETING DIRECTOR Michael V. Dukmejian
PROMOTION DIRECTOR David L. Nimz
INTERNATIONAL ADVERTISING DIRECTOR Michael D. Dudler

EDITOR'S DESK

Brian Dumaine interviews P&G's new CEO Edwin Artzt.

AS WRITER Brian Dumaine was leaving Procter & Gamble headquarters in Cincinnati, a cab driver said, "I can tell that you don't work there." Asked Dumaine: "Why not?" He had carefully worn a gray suit, white shirt, and blue tie. Said the cabbie: "Your hair is too long."

Barbering may be the only thing that's not changing at P&G. Sensing that the company was embarked on a virtual revolution in the way it does business, Dumaine and reporter Susan Kuhn had been following P&G for weeks. So, naturally, Dumaine was in the audience at the annual meeting in Cincinnati when CEO John Smale announced his surprise retirement and the even more surprising selection of Edwin Artzt as his successor. Just minutes after the news broke, Dumaine landed the first exclusive interview with the new chief—an hour-and-a-half talk.

Edgar Smith in 1956

Dumaine found Artzt charmingly direct, with a good sense of humor and the sophistication of a truly global manager. Within the company, however, his aggressive style has some people worried. Our cover story, beginning on page 34, analyzes how P&G is rewriting the rules of marketing—rules that the company largely originated. Everything is being questioned, from its vaunted brand management system to the way it treats retailers. Says Julie Connelly, who edited the story: "It must be extremely hard for P&G's managers, who all grew up in the company, to say, 'Now we've got to do things differently.' "

P&G is Brian Dumaine's third cover this year. The others were "New Ideas for the 1990s" and "Today's Hottest Strategy: Speed." Says he: "Companies are in such tremendous flux that stories about managing are more exciting than ever. Executives face new questions and need answers."

They even have questions about business etiquette. For answers Dumaine took Judith Martin, better known as Miss Manners, to lunch, and his report on that is also in this issue (see page 155).

On October 10 FORTUNE lost an old friend, Edgar Smith, who died at 69. An expert in marketing and finance, Edgar was our assistant managing editor from 1952 to 1957. In his time, someone in the office kept a reference list of the 500 biggest American corporations. One day in 1955, Edgar asked, "Why don't we publish it? It won't be much trouble." (He was wrong about that, as the staff can attest.) Thus was born the FORTUNE 500, an institution known throughout the world. When we last looked, the phrase "FORTUNE 500" was appearing in print some 13,000 times a year.

Marshall Loeb

MANAGING EDITOR

FORTUNE (ISSN 0015-8259). Published biweekly, with three issues in October, by The Time Inc. Magazine Company. Principal office: Time & Life Building, Rockefeller Center, New York, NY 10020-1393. Reginald K. Brack Jr., President; Joseph A. Ripp, Treasurer; Harry M. Johnston, Secretary. Subscriptions: U.S., possessions: one year (27 issues) $47.97; Canada: one year (27 issues) $64.53. Second-class postage paid at New York, NY, and at additional mailing offices. Authorized as second-class mail by the Post Office Dept., Ottawa, Canada, and for payment of postage in cash. Member, Audit Bureau of Circulations. POSTMASTER: Send address changes to FORTUNE, P.O. Box 30604, Tampa, Fla. 33630-0604. Customer inquiries: FORTUNE, P.O. Box 60001, Tampa, Fla. 33660-0001. Phone: 1-800-621-8000. © 1989 The Time Inc. Magazine Company. All rights reserved. FORTUNE is a registered mark of The Time Inc. Magazine Company. **For subscription queries, call Customer Service at 1-800-621-8000.**

NOVEMBER 6, 1989

FORTUNE

ABOVE: A Japanese mother uses P&G's Pampers to change her baby. Photo by Caroline Parsons.

COVER: Procter & Gamble's CEO-to-be Edwin Artzt, photographed at company headquarters by Louis Psihoyos—Matrix.

"Procter is reinventing the packaged goods industry for the year 2000 and beyond."

PAGE 34

MANAGING / Cover Story

P&G REWRITES THE MARKETING RULES 34

Peerless promoter Procter & Gamble is making "watershed changes," says CEO John Smale. It is speeding decisions and getting closer to the customer. Smale's announcement that he will soon retire to be replaced by vice chairman Edwin Artzt is a stunning sign of P&G's commitment to the most radical restructuring in its 152-year history. *by Brian Dumaine*

WILL THE REAL VINCE LOMBARDI PLEASE STAND UP? 38

Victory-obsessed Edwin Artzt revived the foreign division—long P&G's Siberia.

MANAGING

NEW WAYS TO EXERCISE POWER 52

There are five kinds of power, the experts on organization say, and chief executives have all of them at their disposal. Nowadays the best bosses mostly use just two. *by Thomas A. Stewart*

CEOs SEE CLOUT SHIFTING 66

Tyranny is out, a FORTUNE 500/CNN Moneyline poll shows. *by Thomas A. Stewart*

HOW 21 MEN GOT GLOBAL IN 35 DAYS 71

Executives from five nations were the first to try an intensive new program for learning about worldwide management. Did it work? The participants think so. *by Jeremy Main*

THE ECONOMY

AMERICA'S PLACE IN WORLD COMPETITION 83

Its living standards are the highest. But productivity is growing faster elsewhere, and basic education is a disaster. *by Brian O'Reilly*

THE CAPTAINS SEE A TILTED FIELD 93

In a poll CEOs say international competition is getting less fair. *by Brian O'Reilly*

CORPORATE PERFORMANCE

GLAXO'S GOAL: NEW WONDER CURES 101

The U.S. patent on Zantac, the world's best-selling prescription drug, is running out. At Britain's pharmaceutical powerhouse, the heat is on the American boss. *by William E. Sheeline*

"I don't know where the individual investor is, but he should be in stocks. Now is a great time to buy."

PAGE 8

"No ambassadors, no courtiers. It's me and the president of an affiliate one on one."

PAGE 52

"Our government has done a poor job of negotiation on trade. We've got to get Japan to accept reciprocity."

PAGE 93

"Drexel just can't sell deals the way it used to."

PAGE 121

"I don't think hamburger stands have enough jobs. We feel an obligation to keep this industry running."

PAGE 131

"This society halts trading in a bad stock faster than it cancels a bad chemical."

PAGE 139

COMPANIES TO WATCH 113
Orders are up at Fluor, the redesigned engineering and construction giant. *by Nancy J. Perry*

Also: Edison Brothers Stores, Banctec Inc., Rauch Industries, and Paxar Corp.

MONEY & MARKETS

JUNK AFTER MILKEN 121
The falling price of deals spells trouble. And some investors really miss Mike. *by Gary Hector*

COMPETITION

JAPAN'S BIG KNACK FOR COMING BACK 131
How do its troubled industries rebound? It helps to have patient bankers and some government-sponsored collusion. *by Carla Rapoport*

THE ENVIRONMENT

EPA SHOULD CLEAN UP ITS OWN ACT 139
Boss William Reilly needs to unsnarl the agency that enforces the clean air law and myriad rules affecting business. *by Anthony Ramirez*

FORTUNE BOOK EXCERPT

ONE COMPANY'S CHINA DEBACLE 145
American Motors thought building jeeps cheap was a sure thing. It didn't quite work out.

EXECUTIVE LIFE

MISS MANNERS ON OFFICE ETIQUETTE 155
Wherein the doyenne of social graces proffers her advice on business comportment in general.

DEPARTMENTS

EDITOR'S DESK 1

INDEX 6

NEWS/TRENDS 8
Why little investors don't trust the stock market, a 200-mph, made-in-U.S.A. car for $180,000, Zenith's optimistic TV aspirations, and more.

FORTUNE FORECAST 15
Robust growth abroad will help keep the U.S. economy on track. *by Robert E. Norton*

PERSONAL INVESTING 19
Dividends and interest matter a lot more than you think. *by Robert E. Norton*

Also: Compaq, and Portfolio Talk with Steven Aronoff of Scudder Capital Growth Fund.

FORTUNE PEOPLE 195
Silicon Valley's Kurtzig is back, another Dingman spinoff, and more. *by Alan Deutschman*

ON THE RISE 196

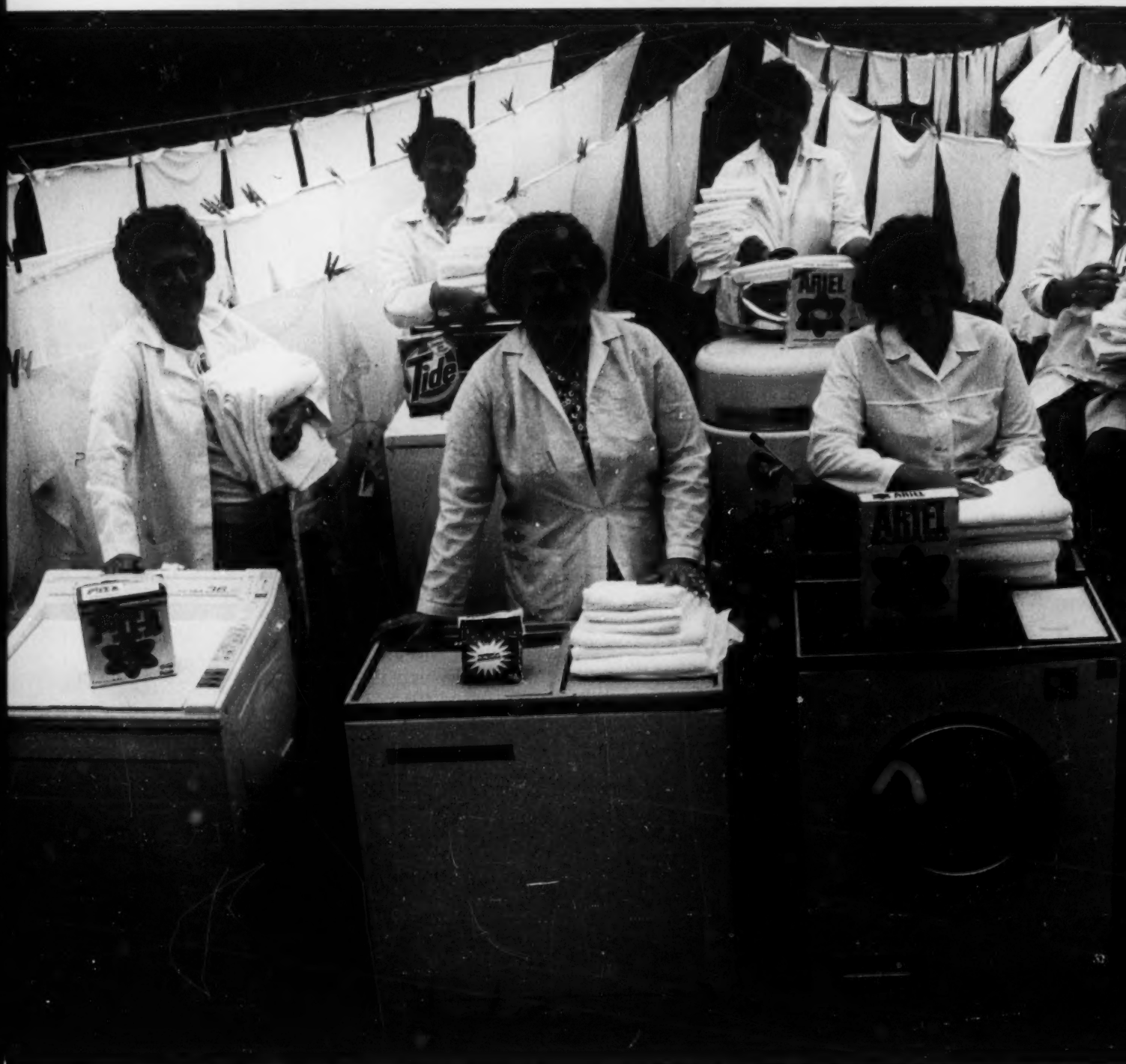
BOOKS & IDEAS 199
Finally, an unauthorized biography of the remarkable Armand Hammer. *by Irwin Ross*

OTHER VOICES 207
A Soviet finance man offers a cure for the S&L mess in the U.S, and a consultant sees risks when rival companies join forces to sell products.

LETTERS TO FORTUNE 212
Lessons from Peter Diamandis's LBO, the dark side of airline mergers, and more.

KEEPING UP *by Daniel Seligman* 215

P&G REWRITES THE



Laundresses at the Cincinnati research center test P&G's detergents in waters and washing machines from such countries as Japan, Peru, Mexic

PHOTOGRAPH BY LOUIS PSIHOYOS—MATRIX

MARKETING RULES

d Venezuela, where the soaps are sold.

Procter & Gamble, once considered the corporate Kremlin, is pushing authority down, speeding decisions up, and getting much, much closer to the customer. ■ *by Brian Dumaine*

AS ANNUAL MEETINGS go, Procter & Gamble's promised to be pleasantly uneventful. Sales and profits were up; ditto the stock price and the outlook for the future. Even the animal-rights activists waving signs outside P&G's sleekly squat postmodern headquarters in Cincinnati seemed routine.

Which is why CEO John Smale's announcement a few minutes into the noon meeting that he was retiring at the end of the year to be replaced by vice chairman Edwin Artzt, 59, had the force of a grenade lobbed into the crowded auditorium. So impregnable is P&G that no word of Smale's plans had leaked beforehand. Indeed, a month earlier, the dark-haired, jowly 62-year-old had denied twice that he had any intention of stepping down.

P&G insiders took the appointment of Artzt as a sign that P&G was continuing with the most radical restructuring in its recent history. The man responsible for turning around Procter's international division, Artzt is known within the company for his aggressive style. Says he: "I feel most of the major things going on here have a lot of my blood and sweat already on them. I'm committed to the program, which is just about to blossom."

The transfer at the top shows that Smale, after overseeing two years of wrenching change, feels confident enough to let Artzt guide a new P&G through its completion. A *new* P&G? Yes. The peerless promoter that practically created modern marketing is re-creating it, profoundly altering the way consumer packaged goods are made and sold. Says Smale: "We've made watershed changes at P&G, the most significant changes since the Second World War. They will bear fruit well into the next decade."

More balderdash from the big office? Hardly. Listen to consultant John Luther of Marketing Corp. of America, an adviser to scores of consumer products companies: "Procter is reinventing the packaged goods industry for the year 2000 and beyond." In the process, the company is providing American business with a case study of how a large and bureaucratic organization can change internally without totally destroying the culture that made it great. Says Smale: "We're not ancestor worshippers,

STEVE RONKIN—BLACK STAR

Procter's electronic coupon system, Visions, helps supermarkets attract new customers.

but we do believe this company's culture is rooted very much in its past." Procter is taking the best of its past—a willingness to stay with long-term projects, job security, and a history of promotion from within—and grafting on to it a management style that calls for pushing authority down, speeding up decisions, and getting closer to the customer. Some examples:

■ P&G now treats retailers—once considered tough, penny-pinching adversaries—as partners and assigns special teams to help big customers like Wal-Mart and Kroger improve inventory, distribution, and sales promotion. (For more on how manufacturers are teaming up with their distributors, see Other Voices.)

■ Into its famous brand management system, P&G has inserted a new level, called category manager. The supra–brand manager has the spending power and decision-making authority to respond to fast-changing markets.

■ Another new position, the product supply manager, works with representatives from manufacturing, engineering, distribution, and purchasing to cut product development time. This middle-level manager has the authority to make decisions on the spot.

■ To crack overseas markets, P&G is going native, spending heavily to learn what consumers from Oslo to Osaka want.

Make no mistake: These are sweeping changes. In the first two years of restructuring, Procter has reorganized marketing, sales, manufacturing, and distribution. Bonuses are now based on individual performance rather than corporate results, and head count in the U.S. is down by 2,000, to 43,600. Over one-third of the company's top 20 managers have been replaced since 1984.

P&G KEEPS CHANGING ITS DIAPER BUSINESS

Pampers are best-sellers in Japan, where mothers change diapers frequently. The diaper on the Osaka tyke, lower left, is being filled with water in a P&G absorbency test. In St. Cloud, Minnesota, used Pampers are recycled into compost, which is sold to Christmas tree farms.

DRIVING the reorganization is Smale's long-term strategy to be the market leader in each of P&G's 39 product categories. So far the company, which makes such household names as Crest, Ivory soap, Head & Shoulders, Pampers, Tide, NyQuil, Pepto-Bismol, and Folgers coffee, is first in 22 categories, up from 17 four years ago. In September the company announced the $1.3 billion purchase of Noxell, the manufacturer of Noxema skin cream and Cover Girl makeup, which will make P&G the largest mass-marketer of cosmetics in the U.S. Says Smale: "The money is made by those manufacturers that have major share." Hercules Segalas, head of the consumer products group at Paine Webber, estimates that best-selling Crest, for instance, enjoys a 75% profit margin.

The reorganization has already produced some sprightly numbers. After a string of dismal years, earnings in fiscal 1989 (which ended in June) jumped 18% to $1.2 billion on sales of $21.4 billion. Unit volume growth, chugging along at 5% in 1985, is now rising at an average annual rate of 7%, a remarkable pace for a large company operating in mature markets.

Wall Street has not overlooked the new sparkle: Over the past year, P&G's stock has bubbled up 48% to a recent price of $120.75 a share. Says Morgan Stanley security analyst Brenda Lee Landry, who cites P&G's manageable debt, growing cash flow, and $1.6 billion in cash: "This large,

REPORTER ASSOCIATE *Susan E. Kuhn*

stodgy company has been revitalized."

True enough. But change has its costs, and the long, drawn-out variety may be the most expensive kind. P&G's process of stretching its reorganization over years has proved demoralizing for some employees and even customers. Says a manager of a grocery chain, who anxiously awaits some sign of the new, improved P&G: "We hear a lot about the focus on Wal-Mart, and we want to know more about it."

Because Smale has been streamlining the company by attrition rather than layoffs, pockets of hardheaded, change-resistant bureaucrats remain. In some divisions and departments, the mix of old and new management levels makes for unnecessary confusion. Reporting lines in sales, for instance, are particularly unclear. An ex-P&Ger observes: "It's a nightmare right now." Though the company claims turnover is low, a headhunter who says he used to get five or ten calls a week from P&G people is now getting 30. Says he: "They're losing some of their best and brightest."

The company's rigid adherence to gradual promotion from within has prevented it from solving pressing problems in the food and beverage businesses. In the infamous soft-cookie wars of the early 1980s, Procter's Duncan Hines division got burned by Nabisco. Orange Crush soft drinks never came close to the Coke and Pepsi league and were finally sold last spring. P&G remains reluctant to hire outside food and beverage experts. Says a former high-level employee: "The biggest hang-up is that they don't let a lot of light in the window."

Though P&G plays down the turmoil, the selection of Artzt suggests that the company may be stepping up the pace of reorganization. Says an ex-P&G manager: "I think Ed will look at plans and timetables and force people to move them up. He will also reduce head count." For example, in the early 1980s, Artzt cut P&G's British work force 13%.

In guiding P&G's restructuring to its conclusion, Artzt has an advantage that managers in similar situations should envy: supportive shareholders. Thanks to a century-old profit-sharing plan and a brand-new employee stock ownership program, current and retired employees control 28% of the shares. Not only do workers have a stake in making the reorganization a success, but so much control in presumably

WILL THE REAL VINCE LOMBARDI PLEASE STAND UP?

LOUIS PECHOUX—WIRE

Artzt: "Things are going to change."

A few days before Edwin Artzt was named CEO of Procter & Gamble last month, one of his colleagues snuck into his office and left a plaque on his desk: "It is not enough that I win; all others must lose." That sentiment, lifted from *The Leadership Secrets of Attila the Hun*, the book Artzt is currently reading, tells a lot about the competitive drive of the company's new leader. Says he: "Winning is the only result that matters. You have to establish benchmarks for yourself and then beat your own benchmarks."

That fierce will helped Artzt revive P&G's moribund overseas operations, the feat that earned him the top job. As head of the international division—historically P&G's Siberia—for the last nine years, Artzt restructured the businesses in Europe and Japan, creating an organization more finely tuned to the diverse needs of foreign customers. He faced up to the dirty work—shutting down soap and detergent factories, cutting headquarters staff, and redefining jobs. "I'm a wrecking crew," he admits. "That's my reputation. If it doesn't work right, I break it down and build it up again." In the process he built foreign sales by some $1.8 billion in five years.

In many ways Artzt is the quintessence of the global manager. He's on the road 60% to 70% of the time, carries a portable phone, and uses a dictaphone machine to send letters and memos by phone to headquarters. Late one night when he was transmitting the day's worth of memos to Cincinnati from his London hotel room, he fell asleep for three hours and woke up to a whopping phone bill. When he is in foreign cities, Artzt likes to jog as far as he can and then take a taxi back to his hotel, measuring his progress by the fare. Honolulu is an $8 run.

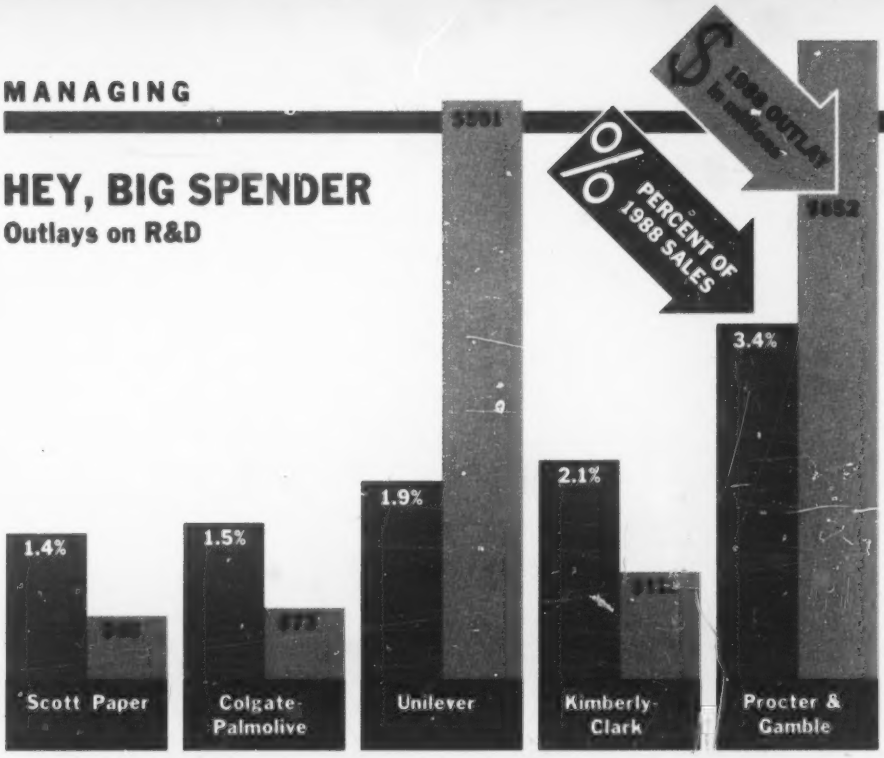
Artzt, who is married with five grown children, believes that his time on the road helps him understand businesses well enough to make quick decisions. He says, "I don't hold court. I go out and see how the operation is run. Then," tapping his pencil on his desk for emphasis, "I give everybody the opportunity for input, and—consensus or no consensus—off we go." Thus he earned the nickname the Prince of Darkness because, says an ex-division manager, "he has this way of coming in, making changes, and blowing out."

Like many successful P&G executives, Artzt's had his make-or-break opportunity early on. He was a 25-year-old brand manager for a new cleanser called Comet, and the launch, smack in the middle of the Christmas season, was going badly. Postmen, loaded down with parcels and cards, threw the Comet samples away instead of delivering them. When P&G's then-chairman Howard Morgens asked the young man what should be done, Artzt crisply advised him to try again in the spring. Relaunched a few months later, Comet became the nation's best-selling cleanser.

While some P&G Kremlinologists think Artzt, at 59, is merely keeping the CEO's seat warm for a few years—P&G's chiefs usually retire at 63—his is not a caretaker's personality. Says he: "It's too early to say what, but things are going to change around here." Is that a crane pulling up in Cincinnati, dangling the wrecker's ball?

HEY, BIG SPENDER

Outlays on R&D



friendly hands should discourage raiders.

Restructuring came to Cincinnati none too soon. In the mid-1980s, P&G's margins and earnings were eroding, and flagship products like Crest and Pampers were losing market share. The feeling among financial analysts and corporate customers was that P&G had become a corporate Kremlin: bureaucratic, risk averse, and arrogant. Says Leslie Dietzman, an executive vice president at Ames Department Stores and one of P&G's major customers: "It was do it P&G's way or hit the highway."

A manager at a large Midwestern supermarket chain, for instance, recalls how P&G once told him he would get his promotion money (funds the manufacturers give retailers to pay for special sales, coupons, and ad campaigns) only if he ran a two-column-inch newspaper ad on Tide. Recalls the retailer: "The P&G salesman would come into the store, measure the ad and say, 'Nope, it's only 1.9 inches, you won't get the money.' "

MANY COMPETITORS like Colgate-Palmolive and Campbell Soup were already restructuring, and Smale realized that if he didn't do some heavy lifting, P&G would be left behind. Turning over such a huge boulder would be a hard job, but Smale, a 37-year veteran with an almost encyclopedic knowledge of the company, was the right man. In 1954, when he was the brand manager for what was then a little-known toothpaste called Crest, he asked the American Dental Association to endorse it. Six years later they did, giving Crest a leg up on the competition that it has never lost. A high-ranking manager who recently left the company describes Smale as "a tough, pragmatic man with a great command of the business. He can keep his hands on a lot of balls."

Though pleasant in social settings, Smale is considered aloof by colleagues. His lieutenant John Pepper, the company's president, is much warmer, and P&G security analysts, employees, and former employees tabbed him as the next CEO. When Artzt got the call, the speculation was that Pepper, at 51, needed more seasoning—an opinion that was reinforced when he was made the head of international, Artzt's old territory. Nonetheless, he remains the heir apparent. Known as a listener and consensus builder, Pepper invites managers on the spur of the moment for informal lunches. He represents a new generation at P&G hip to the latest in management thought who toss around buzzwords like "self-directed" and "empowerment." Not that he's exactly Silicon Valley: Employees still talk about the time he worked Christmas day.

In the summer of 1987, the company began organizing its 4,000-strong sales force to do something pretty obvious: focus more on the customer—in this case, supermarkets and department stores. Under the old system P&G had 11 national sales forces, each hawking a product line such as detergents or foods. Retailers were faced with numerous P&G salesmen pushing 11 different product lines with all sorts of different promotions. For years P&G got away with this awkward system. Says Paine Webber's Segalas: "Retailers hated P&G, but they needed it. It dominated the trade."

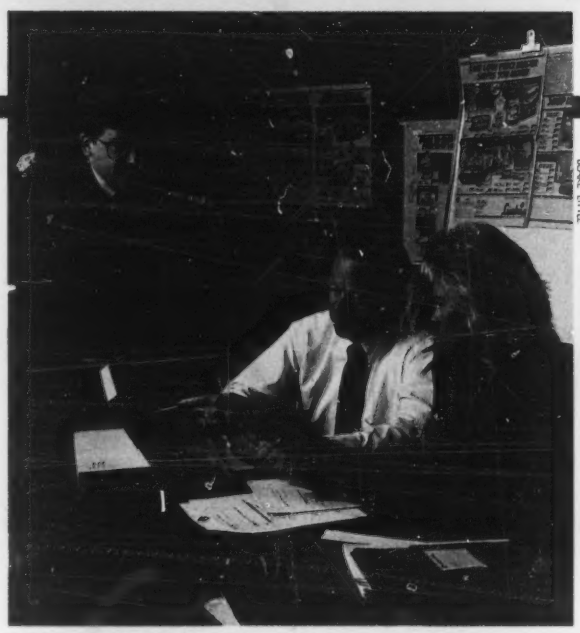
Then the balance of power shifted from big manufacturers like P&G to the retailers. What tipped the scales was consolidation among supermarket and drugstore

WHERE P&G IS NO. 1

LISA BOGDAN (11)

chains and the widespread use of scanners at the checkout counter. As a result of industry mergers, 100 chains now account for some 80% of P&G's U.S. grocery sales, vs. 15% about 20 years ago. Electronic bar coding helped retailers gather their own sales data. P&G could no longer bully its way into the stores, waving figures a retailer couldn't dispute that showed Tide was outselling All and was therefore entitled to more shelf space.

Slowly P&G realized that it would have to start fussing over these power-punching retailers. Says Mike Milligan, one of P&G's top sales executives: "We're switching from a product to a customer approach." Now teams of people from finance, distribution, manufacturing, and other functions are assigned to cover the big retailers. Says an executive at a large supermarket chain: "We can call the shots now. If we want to run a Duncan Hines ad, P&G has given its local sales managers the autonomy to say, 'We'll give you $20,000 for it.' "



BLAKE LITTLE

P&G reps show a Lucky Stores manager (center) a computer system that helps him keep track of orders.

A TEAM OF A DOZEN or so attends solely to the needs of Wal-Mart. Working with the crew from P&G, the discount giant has set up a just-in-time ordering and delivery system for Pampers and Luvs disposable diapers. When the diapers run low in a store, a computer sends an order by satellite to a P&G factory, which in turn automatically ships more diapers directly to the outlet. As a result, Wal-Mart can maintain smaller inventories and cut the number of times it runs out of Pampers. Says Smale: "This is what people refer to as a win-win situation. Our costs go lower and their costs go lower. Our objectives and the objectives of our customers are going to be much more aligned."

Here's another example of working with—rather than against—the retailers. P&G through a joint venture has installed a state-of-the-art checkout system called Visions in a Dahl's supermarket in Des Moines, Iowa. A Dahl's customer gets an electronic card that he inserts in a black box hooked to the register to call up his account. Let's say the customer buys Downy on sale. When the clerk scans the bottle of fabric softener, a color monitor at the counter shows a video of a woman holding Downy and purring, "You've saved 50 cents on Downy." That amount is deducted from the tab. Visions also automatically tallies points for certain products—50 for Downy. When the customer accrues enough points, he or she gets a prize, perhaps a watch (4,745 points) or a VCR (22,035). Not only is Visions attracting customers to Dahl's stores, but it is also giving both Dahl's and P&G valuable market data about consumer spending.

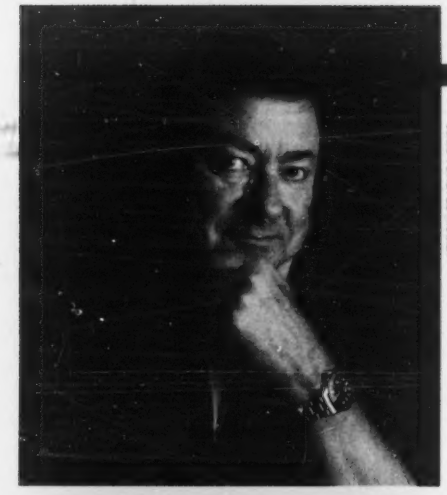
Once Smale tackled sales, he turned to the heart of P&G, the vaunted brand management system. The company doesn't know for sure how many brand managers it has—one inside source stopped counting at 92. Some shepherd $700-million or $800-million-a-year businesses. Only one of every three new hires makes it to brand manager, a process that usually takes four years. Those who do earn between $60,000 and $77,000. They are responsible for every aspect of their brands—marketing, advertising, sales, and development.

The rub: To get a major decision, brand managers often had to go through three or four layers of management. With up to 14 brand managers in each division, getting the attention of the division chief wasn't easy. One manager recalls waiting a year for an OK on a simple package design change. Another difficulty: Brand managers were so focused on a single product that they lost sight of the marketplace, even of what their colleagues were doing. Says one who left P&G: "The brand managers were butting heads. There was a lot of cannibalization. You'd issue coupons at the same time for P&G's liquid and powdered detergents."

That's why Smale, in late 1987, created the category management system, a move which promises to revolutionize consumer marketing much as brand management did nearly 60 years ago. He broke the company into 39 product categories and named 26 category managers (some have more than

WHERE P&G IS NO. 1 (Cont'd)

GOTZ LINZENMAIER (2)



LOUIS PSHOYOS-MATRI

BRAD MARTI

Retiring CEO Smale (top) tapped Pepper to take over the international division, considered his final stop en route to the top.

one category). Brand managers report to the category manager, who is like a small businessman. He has total profit-and-loss responsibility for an entire product line—all laundry detergents, for example, which would include such competing brands as Tide, Cheer, and Ivory Flakes.

The idea is to have someone who thinks in terms of product groups and who will make sure the brand managers aren't sabotaging each other. Now the brand managers can go directly to the category manager, who has the authority to make quick decisions and to back them up with as much as $1 million per project. Says Smale: "The creation of these category profit centers was really a continuation of the basic philosophy that small is good, that you bring focus to a specific business when you create a stand-alone operation."

Last year's severe drought in the Midwest put the new system to the test. The price of soybeans, a crucial ingredient in Puritan and Crisco oils, started to shoot up. What to do? Buy now or wait? Under the old system, says category manager Neil DeFeo, "We'd write a lengthy memo with exhibits and send it to senior management for agreement." Instead, DeFeo gave an OK on the spot to the purchasing agent to buy more soybeans and avoided a pounding on escalating prices.

Critics of the category management system say that P&G is moving in the right direction but not far enough or fast enough. For the most part the company has not eliminated any of the division vice presidents or other executives whose authority is being usurped by the category managers. Observes one ex-P&Ger: "You've got these vice presidents, all with their corporate jets, who make a lot of money and have been there forever. It's not easy to get rid of them."

WHEN HE LAUNCHES a new product or repositions an old one, the category manager forms a small team made up of the brand manager plus people from sales, finance, and manufacturing. Key to P&G's success here is another new position called the product supply manager, who reports to the category manager but has broad responsibility over every aspect of manufacturing, engineering, purchasing, and distribution. Says Smale: "I have the growing conviction that the product supply concept is perhaps the single most important thing that can influence our profit performance over the next several years." He estimates that the creation of product supply managers will slash costs by $1 billion over the next two years.

At the old P&G a brand manager would come up with a new concept for a product or package. The idea, usually traveling in memo form, would be tossed over the transom to engineering, then to manufacturing, and then maybe to distribution. Progress was slow and awkward.

The product supply manager has changed all that. This spring, for example, the category manager for dishwashing detergent wanted a new cap for liquid Cascade. Though the cap in use was childproof, it was also somewhat adultproof. The team got together, and the product supply manager, as its leader, was able to get everyone to work out all the cost, design, and manufacturing problems. The cap went into production without any glitches after only nine months, nearly twice as fast as under the old system.

One factory hand called up a customer who complained her angel cake didn't rise, and helped figure out why.

TO INSTILL a sense of what P&G calls "total quality," the company spreads tales like this one as well as other corporate heroics. In a war story making the rounds this fall, the company's Hatboro, Pennsylvania, plant was gearing up to launch a new children's NyQuil cough syrup in time for the winter cold season.

Just days before the line was to start rolling, the factory received from a supplier three million NyQuil boxes printed upside down. If the faulty boxes were run through the machine that inserted the bottles, the tops of the bottles would end up at the bottom of the boxes, and the packages would be unstable on the store shelves. Without enough time to bring in engineers or have new parts designed, two mechanics, George Rowan and Ed Scott, worked around the clock for three days, missing the plant's annual picnic. The pair came up with a system of springs and brushes that turned the boxes around and kept them open so NyQuil bottles could be inserted properly. Amen.

And how about this for getting *really* close to the customer? At the Duncan Hines angel food cake factory in Jackson, Tennessee, the line workers are given letters from customers who have problems with the product. One factory hand called up a customer whose angel food cake didn't rise, and helped figure out why by asking such questions as "How long did you beat the mix?" and "At what temperature did you bake it?" Says Smale: "What we've said to the workers is, this is the only place we make angel food cake, and you're responsible for it, and if you want to talk to the consumer, we'd like you to talk to the consumer."

The quality quest explains the $652 million P&G allocated to R&D in fiscal 1988. As a percent of sales, that amount represents half again as much as such competitors as Unilever and Colgate-Palmolive spend developing packaged goods (see chart). Even so, P&G has had few megahits since it launched disposable diapers in

the 1960s. But olestra, the fake fat now undergoing Food and Drug Administration testing, may be that long-awaited home run.

OLESTRA is sugar and vegetable oil chemically combined so that its molecule is too large for the stomach to digest; so it never enters the bloodstream, where it can clog arteries and veins. The body simply excretes it. Olestra rolls over the tongue much like fat but without the calories or cholesterol. It can be used to replace the silky consistency fat gives ice cream or to fry fat-free French fries, potato chips, and donuts. At Procter's R&D labs, this FORTUNE writer dined on steak with wine sauce, sauteed zucchini, and apple tart, all cooked in vegetable oil cut with olestra. The meal tasted just as good as food cooked in regular vegetable oil. Potato chips fried in olestra, however, flunked a blind taste test; they lacked the delightfully greasy aftertaste of the real thing.

The FDA is expected to rule on olestra's safety within the next two years. If approved for sale, olestra will likely be used initially as an additive in Crisco and Puritan vegetable oils. Nutritionists are concerned that if P&G marketed a 100% olestra product, some Americans would scarf down ice cream and French fries until scurvy got them. Estimates of how much money olestra will make for P&G range wildly. Some financial analysts believe the fake fat will add $1 billion to sales over the first few years; others a few hundred million. Even Smale can't guess, but he firmly believes olestra heralds a change in the American diet.

Want to know how P&G's restructuring will play out? Take a look at the international division. During his nine-year tenure as its head, Artzt helped P&G expand rapidly overseas. In 1986 the international business—P&G peddles its products in 140 foreign countries—represented 29% of sales; now it is 40%. Nearly 35% of earnings in fiscal 1989 came from offshore, up from 23% three years ago. In fiscal 1989 international's profits shot up 37% from the year earlier.

Feeding the growth spurt is P&G's entry into new business categories overseas, such as feminine protection products. Always is now marketed in the Far East, where it's called Whisper and is the biggest selling sanitary napkin in Japan. The acquisition of Richardson-Vicks, the maker of NyQuil cough syrup and Oil of Olay skin creams, has provided P&G with strong international distribution channels in Australia, New Zealand, Singapore, and Hong Kong. But perhaps the most important element in P&G's overseas success is its new willingness to go native, and nothing illustrates this better than the company's experience in Japan.

Smale predicts that—after 16 years of struggle—sales in Japan will top $1 billion in 1990. In the next three years Japan should replace West Germany as P&G's biggest foreign market. The key to cracking Japan: realizing that the company would have to fine-tune its "world products"—defined by P&G as the best you can buy anywhere—to the Japanese market.

A Camay ad showed a Japanese husband in the room as his wife was bathing. Japanese found it distasteful.

Not such a revelation, you say. Well, remember that P&G once truly believed its marketing prowess could ignore cultural differences. That attitude is changing. Says Artzt: "We need to develop the ability to deliver globally what we do well regionally. We have to adapt to overseas markets." For example, a Camay soap commercial showed a Japanese husband in the room while his wife was bathing, an invasion of privacy the Japanese found distasteful. After P&G switched to a more abstract commercial, sales improved.

In the early 1980s, P&G was getting soaked in the Japanese diaper market. After years of painstaking market research, the company finally realized that Japanese parents are very concerned with keeping their babies clean, and changed their kids' diapers far more often than Americans do. In response, P&G devised Ultra Pampers, a more absorbent diaper that keeps the tyke drier and makes frequent changing a less messy task. P&G also discovered that in land-starved Japan, shelf and closet space is almost as precious to housewives as their kids. It made the diapers thinner so the same number fit in a much smaller box. The popularity of the new diapers spread like a baby's rash, and today Ultra Pampers is the market leader.

P&G sells a total of 20 products in Japan, including Colac, the leading laxative. To keep the momentum going, in September the company announced a new $215 million R&D center to be built in Osaka Bay in the early 1990s.

The company has also made some inroads into the Japanese distribution system, whose arcane network of mom and pop wholesalers has frustrated many American firms. Procter's executives in Japan try to establish an unofficial partnership with the Japanese distributors the same way that the Japanese companies do, by showing a keen personal interest in their lives, inside and outside work. Not only do top executives help the distributors run their businesses, but they also hold elaborate lunches for the them and, in some cases, even attend their weddings and funerals.

WHAT'S TRULY AMAZING about P&G's historic restructuring is that it is a response to the consumer market, not the stock market. No raider has the company in his cross hairs—at least not yet. So P&G can rewrite the rules of marketing in its own deliberate way, continuing to pour money into R&D and toughing out a turnaround for businesses like Citrus Hill orange juice despite years of losses. After all, taking the long view paid off for Folgers coffee, which took 25 years to become the best-selling java in the U.S. A new management structure, a fresh global approach, an enduring corporate culture, and a commitment to the long term: Sounds like P&G is just about ready for the year 2000. ■

INVESTOR'S SNAPSHOT

PROCTER & GAMBLE

SALES (latest four quarters)	**$21.4 BILLION**
CHANGE FROM YEAR EARLIER	UP 10.7%
NET PROFIT	**$1.2 BILLION**
CHANGE	UP 18.2%
RETURN ON COMMON STOCKHOLDERS' EQUITY	**19.4%**
FIVE-YEAR AVERAGE	13.0%
STOCK PRICE RANGE (last 12 months)	**$78.625-$134.00**
RECENT SHARE PRICE	**$120.75***
PRICE/EARNINGS MULTIPLE	**17**
TOTAL RETURN TO INVESTORS (12 months to 10/13)	**52.7%**

*The stock will split two for one on 11/17/89.

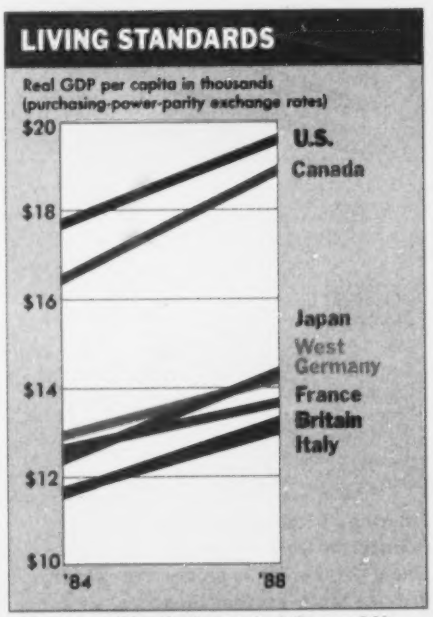
AMERICA'S PLACE IN WORLD COMPETITION

ts living standards are the highest anywhere and exports are robust again. But productivity is growing faster in other nations, and basic education is a disaster. ■ *by Brian O'Reilly*

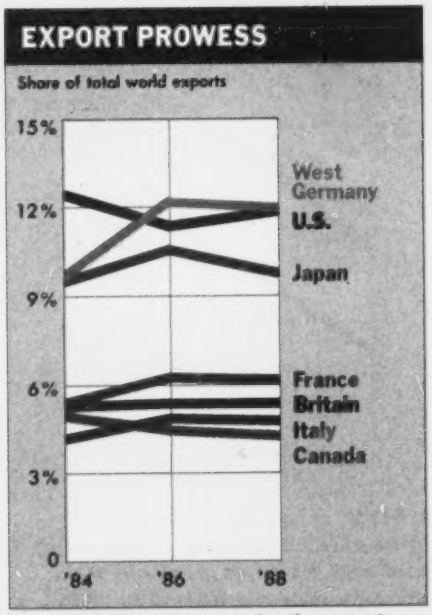
S THAT BUZZING in your ears cognitive dissonance? You know that America is entering an unprecedented eighth year of peacetime expansion, and you keep reading about—or are in the midst of—corporate upheavals designed to make U.S. business even more competitive. Yet gravely concerned economists keep telling you that America's productivity is flagging, its exports are lagging, and its standard of living is dropping behind that of other industrial powers. What's going on?

The charts on these pages cut through the hyperbole, an essential step in figuring out what is really right and wrong with the U.S. economy—and what must be done to improve it. By many key measures of performance, the U.S. is the world leader. But several underlying trends *are* disturbing.

Two measures sum up the good news about where America stands today: living standards and export strength. The best barometer of living standards is total output per person. Unlike consumption, which can be boosted temporarily by borrowing, output reflects a country's ability to sustain its consumption year after year. Americans are better off than anyone else. Other na-

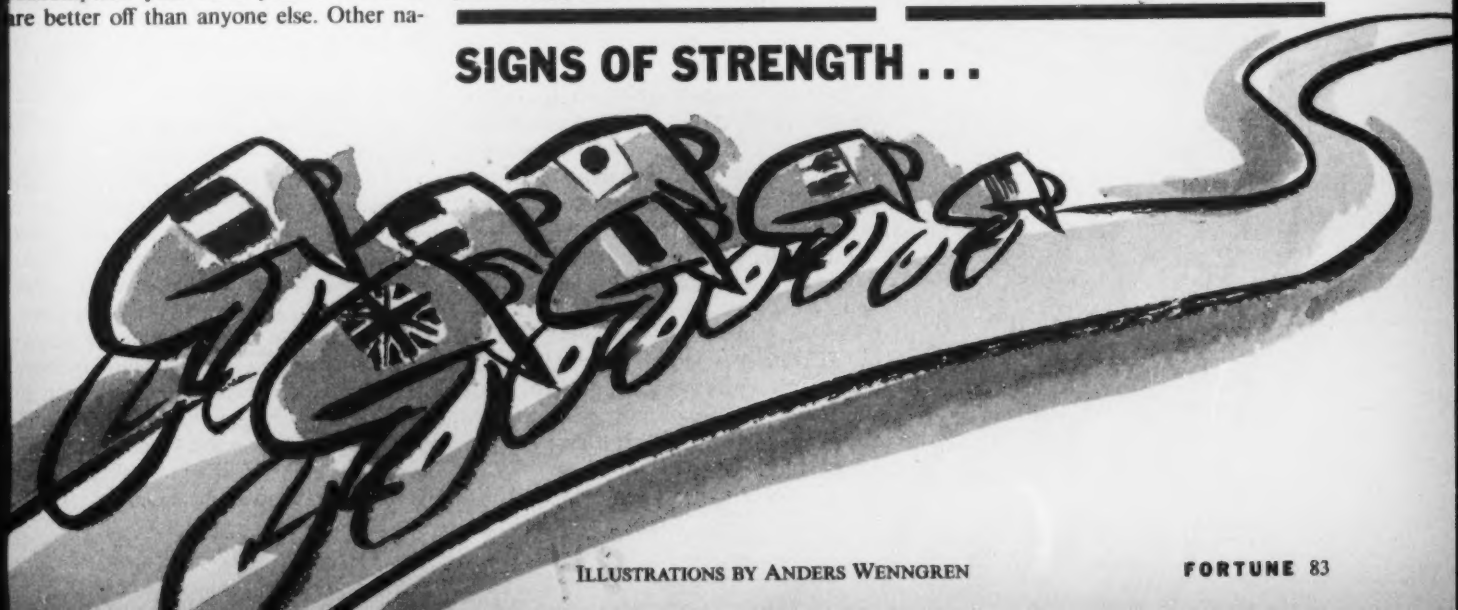


America still leads the rest of the world in gross domestic product per capita. The chart reflects dollars of comparable purchasing power in various countries.



Vying with West Germany for the export championship, the U.S. has recaptured lost ground. Its manufacturers have bounced back from the decade's earlier shocks.

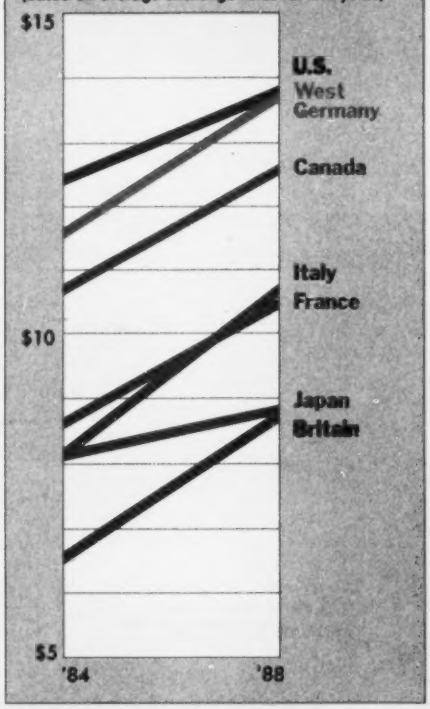
SIGNS OF STRENGTH . . .



ILLUSTRATIONS BY ANDERS WENNGREN

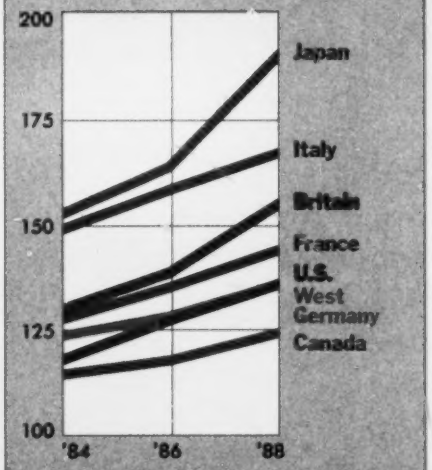
. . . AND PORTENTS OF WEAKNESS

FACTORY PAY



At $13.92 an hour, American factory workers are still the world's best paid, but just barely. Wages are growing faster in all other major countries save for Japan.

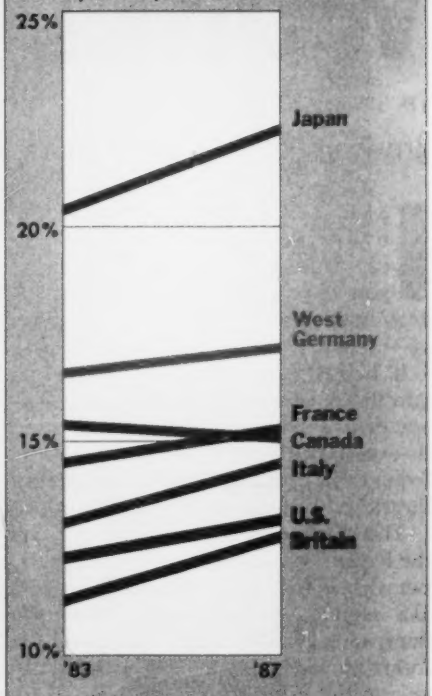
PRODUCTIVITY GROWTH



GDP PER EMPLOYED PERSON	1984	1988
U.S.	$39,249	$41,281
Canada	37,458	39,281
France	32,483	35,512
Italy	32,151	35,329
West Germany	31,456	33,695
Britain	27,332	29,771
Japan	26,181	29,678

America's output per employed person remains the world's highest. But staying ahead gets harder as productivity keeps growing faster in other countries.

CAPITAL INVESTMENT



Trailing the world capital spending surge, the U.S. invests less of its output on modernizing factories and offices than do most other major industrial nations.

tions are laboring hard to catch up, and more power to them. But America's growth is lethargic these days—and that is something to worry about.

Measured by its share of world exports, the U.S. is one of the world's top competitors. It has regained much of the ground it lost in the mid-1980s. The nation's foreign debt is still growing, however, and its current account deficit is improving only slowly.

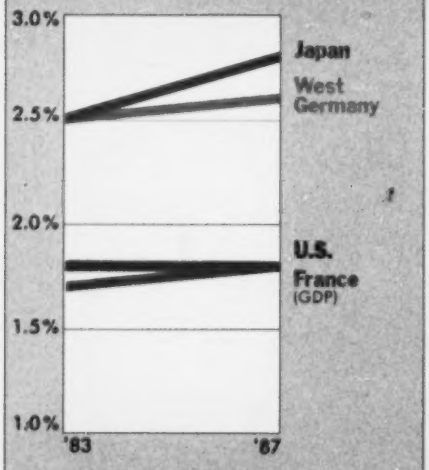
Productivity is the key to rising living standards. Taken together, American factories are the most productive in the world. Even the Japanese lag behind. Though manufacturing productivity growth in the U.S. has slowed somewhat in recent years after rebounding smartly from the laggard pace of the Seventies, it's still strong in historical terms. "The U.S. hasn't fallen down," says Gerald Godshaw of the WEFA Group economic consulting firm. "In the Eighties we are probably at the average of productivity growth for the last century."

But America can't ignore the pace other countries are setting with their investments in new factories, machinery, and R&D. In 1987, Japan plowed a stunning 22.3% of gross domestic product back into modernizing machinery, offices, and plants—far more than any other major industrial power. That was up almost two percentage points from 1983 and according to the Bureau of Labor Statistics came to about $6,000 per worker, vs. just $5,000 in the U.S. America's long-term trend may no longer be good enough.

Even excluding what the U.S. invests in military research, American R&D spending—$67.5 billion in 1987—dwarfs that of any other country. The trouble is that West Germany and Japan are spending a much

R&D SPENDING

Nonmilitary, as a percent of GNP

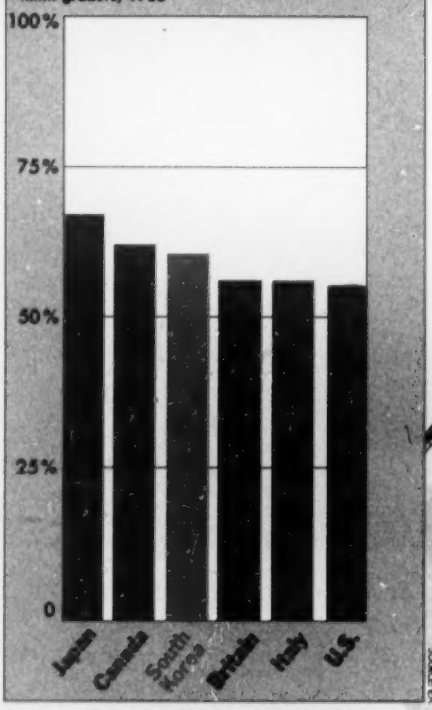


1987 NONMILITARY R&D in billions of U.S. dollars	
U.S.	$67.5
Japan	$38.8
West Germany	$18.4
France	$10.9

While America spends the most on R&D in absolute dollars, developing new products and processes is a higher priority in West Germany and Japan.

BASIC EDUCATION

Correct answers on science achievement test by ninth graders, 1986



SOURCE IEA

Standardized science tests given to ninth-graders in 17 countries show the U.S. lagging. Tied with Thailand and Singapore, it leads only Hong Kong and the Philippines.

higher proportion of GNP to develop new technologies and processes.

America's rivals may also be allocating their money more wisely. Nearly 70% of the nation's industrial R&D goes into inventing new products, and far less into refining mass-production techniques. By contrast, Japan devotes about two-thirds of its R&D to tinkering with manufacturing processes—figuring out how to make a zillion widgets cheaper or better. "The U.S. has been very good at coming out with splashy new products," says Edwin Mansfield, a University of Pennsylvania economist. "The Japanese are good at making incremental changes and reducing costs." That superiority helped Japan win the memory chip business, among others.

The dollar's decline since early 1985 has helped make America's manufacturing wages relatively more competitive. Compensation costs were 30% higher in West Germany than in the U.S. last year, and just 9% lower in Japan. Even if you reduce the effect of currency fluctuations by translating wages at the average exchange rate for the past five years, factory workers cost virtually the same in Germany as in America. The Italian and French are rapidly closing the gap—though the Japanese remain a bargain. The pay gains of workers abroad laudably boosted living standards there. By contrast, U.S. employees had only meager earnings growth over the past few years.

Perhaps most worrisome for the future is the poor education of students who will go to work in America's factories and offices. The U.S. devotes 6.8% of GDP to education, a larger share than any other major country. But standardized science and math tests given internationally to schoolchildren in recent years show the U.S. ranking among the worst of all countries tested. These results say more about a worker's ability to interpret a technical manual than mere literacy statistics. Impossible in a nation of so many Nobel Prize winners? "We serve our best students pretty well," says Alan Purves, head of IEA, the education group that ran one of the studies. "We really don't do well with a moderately large portion of the population."

America is clearly doing many things right, but not enough. It needs to save more—by cutting the federal deficit, among other things—so it can invest more. And it needs to make better use of what it does invest, whether in new machinery or in education. ■

REPORTER ASSOCIATE *Laurie Kretchmar*

THE CAPTAINS SEE A TILTED FIELD

In a new FORTUNE 500/CNN Moneyline Poll, America's top executives say global competition is getting less fair—but they can win without government help. ■ *by Brian O'Reilly*

IT SOUNDS LIKE good news: America is taking a growing share of the world's $2.7 trillion market for exported goods (see preceding story). But mention foreign competition to CEOs of FORTUNE 500 companies, the ones who are winning the battle, and they're far from ebullient. Yes, they believe U.S. companies are getting better at competing against their international rivals. But a growing number of CEOs are frustrated—either by foreign governments helping out their own industries or by U.S. policies that they say make the tough job of international competition even tougher.

These are among the findings of a recent FORTUNE 500/CNN Moneyline CEO Poll. Clark Martire & Bartolomeo, an opinion research firm, queried 213 CEOs of FORTUNE 500 and Service 500 companies between September 27 and October 5.

Asked if their companies were on a level playing field with foreign rivals, 57% of top executives said no. That represents a big jump from 17 months ago, when a FORTUNE 500/CNN Moneyline CEO Poll found that only 40% of corporate chiefs felt at an unfair disadvantage in international trade. No single incident seems to account for the rapid change in sentiment, although recent events—such as Sony's pending purchase of Columbia Pictures and foreign airlines' interest in U.S. carriers—may have magnified the sense of formidable competitors invading local turf. Great Western Financial chief James Montgomery notes another high-visibility trend: "Most of the buildings in downtown Los Angeles seem to be owned by foreign investors."

Certainly some companies have good reason for crying foul. Richard H. Ayers, chairman of Stanley Works, says, "We have a hard time selling tools in India, for instance, because of very high tariffs. But products from India can flow to the U.S. with little tariff burden. We should pressure countries to eliminate those barriers, or we should create our own."

Other companies face rivals with a different kind of advantage: subsidies. Dwayne O. Andreas, head of Archer Daniels Midland, finds it rough exporting grain, since commodities pouring into international markets are often heavily subsidized. "Every one of our competitors is a democratic, socialist, mercantile-managed economy," he says. "American companies are not competing with other companies but with the treasuries of other governments, and that's the problem."

Jack Rehm, president of media company Meredith (*Ladies Home Journal, Better Homes and Gardens*), worries about the growing number of American properties being bought by foreigners unburdened by U.S. accounting rules. They require a purchaser to put a ton of goodwill on the books in most mergers, then amortize it—resulting in an annual hit to earnings—for as long as 40 years. Says he: "As I see more foreign competitors than before, the perception I'm likely to have is that the playing field is less level." Merle Banta, chief of AM International, thinks U.S. companies must divert too much effort to keep America's own raiders at bay. Says he: "The own-

"Our government has done a very poor job of bilateral negotiation on trade."

EDWARD HENNESSY JR.
Allied-Signal

Q In the past five years, has the U.S. gained or lost ground against its major trading partners?

A
- Gained ground 69%
- Lost ground..... 28%
- Not sure..... 3%

Q Compared with five years ago, is foreign competition tougher?

A
- About the same... 37%
- Somewhat tougher..... 27%
- Much tougher..... 20%
- Not as tough..... 7%
- Does not apply..... 9%

Q Is your company on a level playing field with foreign competitors?

A
- No..... 57%
- Yes..... 31%
- Not sure..... 2%
- Does not apply.... 10%

Q Can U.S. companies compete globally on their own?

A
- Yes..... 59%
- No..... 37%
- Not sure..... 4%

ership structures of West German and Japanese companies provide better protection against takeovers. Therefore you don't have a lot of Carl Icahns and Boone Pickenses running around there."

Not everyone feels aggrieved. "As long as salaries and wages are about the same in developed countries with well-educated workers, it's a level playing field," says Paul Cook, chairman of Raychem, an electronics company that gets 60% of its revenues

"Most of the buildings in downtown L.A. seem to be owned by foreign investors."

JAMES MONTGOMERY
Great Western Financial

overseas. "If you accept that you have to have a local presence in these countries and can't just ship products from here, you can penetrate foreign markets."

Despite what some consider uphill battlefields, an overwhelming number of chief executives feel that new strategies and reorganizations undertaken by U.S. companies in the past few years have greatly strengthened America. Says Westmoreland Coal chief Pemberton Hutchinson: "We're exporting more coal than ever, for less than we did five years ago, and still making money." The dollar has weakened considerably in the past five years, and that makes his goods cheaper abroad, he points out. But Westmoreland is a better competitor today largely because of its own actions. The company cut senior management ranks by one-third and shifted some medical costs to salaried employees, enabling it to compete against subsidized foreign coal.

You'll have to look hard to find a CEO who thinks foreign rivals are slouching. Nearly half consider them better than they were five years ago, and almost everyone else believes the competition is as good as ever.

Which competitors will be most fearsome in the coming five years? These executives divide about evenly over whether to worry more about threats from the East or from the West. Japan was the No. 1 pick to be America's toughest rival, receiving far more mentions than West Germany, even though Germany accounted for a greater share of world exports last year than any other country. Altogether, however, nearly as many executives mentioned European countries as cited Asian ones. Many echoed the view of Ayers at Stanley Works: "Thailand, Malaysia, and mainland China will be a real threat as low-cost manufacturing regions. I have less concern about unified Europe being competitive. The risk is that unified Europe may close its borders and make it harder to sell products into their market."

Should the federal government take a more active role in helping Americans compete abroad? Most CEOs say no, and some say it emphatically. "Hands off," says Colgate-Palmolive chief Reuben Mark, whose company gets two-thirds of its revenues from foreign markets. Executives who favored government help were most likely to cite trade reform—specifically, opening closed markets and eliminating trade barriers. That's easier said than done, of course. Allied-Signal's Edward Hennessy Jr. roundly criticizes America's efforts to open foreign markets. "I think our government has done a very poor job of bilateral negotiation on trade," he says. "We've got to get Japan to accept reciprocity."

The CEOs also urged better cooperation between government and business. Like what? Valmont Industries makes irrigation systems in half a dozen countries, and CEO William Welsh II has no trouble providing examples where cooperation is better than in America. The French offer tax breaks to companies that install environmental controls, he says, while "in the U.S. they slap penalties on you and threaten to put you in jail" if you don't install them. Austria provides credit to foreign government customers, says Welsh, but he has to round up more expensive credit to pull off a similar deal from the U.S. His conclusion: "It's getting more difficult to be a U.S. producer operating in international markets."

John Croom, head of Columbia Gas System, thinks it may be time for the federal government to overhaul outmoded antitrust rules. "We've seen too much of the Rust Belt industries like steel move to the Far East, and they are never coming back," he says. "There may be a need in a global environment for more joint research or operations." But the only government help many executives want is what Tenneco chief James Ketelsen calls "indirect help." An example he cites: "We've got to improve the U.S. budget deficit so the country can operate with lower interest rates."

What is the CEOs' bottom line on foreign competition? The answer seems a distinctively American attitude toward competition of any kind: This isn't a fair fight, but we'd rather fight it on our own. We can win it that way. We are winning it. But we sure wish it were fair. ■

"The playing field is less level."

JACK REHM
Meredith

Q A **Which countries will be America's toughest new competitors over the next five years?**

Japan	42%
European countries (other than West Germany)	39%
Asian countries (other than Japan)	20%
West Germany	18%
Other	18%
Not sure	9%

Total exceeds 100% due to multiple responses.

Q A **Which government policies would most help U.S. business meet the challenge of global competition? (Responses from the 37% of CEOs who favor government help)**

Trade reform	51%
Greater cooperation between government and business	44%
Tax reform	24%
Subsidies	13%
Balanced budget	10%
Better education	6%
Lower interest rates	4%
Other	13%

Total exceeds 100% due to multiple responses.